

## Message Text

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ORIGIN INR-10

INFO OCT-01 NEA-14 ISO-00 SS-20 EUR-25 SSO-00 NSCE-00

USIE-00 INRE-00 CCO-00 CIAE-00 DODE-00 PM-07 H-03

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SAJ-01

EB-11 ACDA-19 /130 R

DRAFTED BY INR/RES: PMOLINEAUX; FHCAPPS

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P:EDJEREJIAN

EUR- MR.STABLER

S/S: WHLUERS

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FM SECSTATE WASHDC

TO AMCONSUL JERUSALEM IMMEDIATE

C O N F I D E N T I A L STATE 094146

NO FOREIGN DISSEM TOSEC 362

SECRETARY'S PARTY FOR SISCO

E.O.11652:GDS

TAGS: IC, PGOV, OVIP -

SUBJECT: ICELANDIC CENTER-LEFT COALITION FALLS; US BASE  
TALKS IN LIMBO

FOLLOWING IS TEXT OF INR INTELLIGENCE NOTE ISSUED MAY 6:

1. THE WITHDRAWAL ON MAY 6 OF THE SMALL ORGANIZATION OF  
LIBERALISTS AND LEFTISTS (OLL) FROM THE GOVERNMENT  
COALITION HEADED BY THE PROGRESSIVE PARTY HAS LED PRIME  
MINISTER JOHANNESSON TO TELL PARLIAMENT THAT HE CAN "NO  
LONGER CARRY ON." HOWEVER, THE DATE OF A SPECIAL ELECTION  
HAS NOT YET BEEN SET, BUT IS EXPECTED TO BE IN LATE JUNE  
OR SEPTEMBER.

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2. UNTIL A NEW GOVERNMENT HAS BEEN INSTALLED, IT IS

UNLIKELY THAT FURTHER US-ICELANDIC TALKS ON THE CONTINUATION OF THE US/NATO KEFLAVIK BASE WILL BE HELD. ANY LIKELY SUCCESSOR GOVERNMENT WOULD BE MORE FRIENDLY TOWARD US INTERESTS THAN THE PRESENT COALITION, WHICH INCLUDES THE COMMUNIST-DOMINATED PEOPLE'S ALLIANCE (PA).

3. ANTI-INFLATION PROGRAM PRECIPITATES FALL: ON MAY 2, JOHANNESSEN--AGAINST THE WISHES OF THE OLL--PRESENTED A BILL TO PARLIAMENT TO ROLL BACK PRICES AND WAGES. BECAUSE OF THE FUEL CRISIS AND DECLINING PRICES FOR FISH EXPORTS, THE ECONOMIC SITUATION HAD DETERIORATED TO THE POINT WHERE DRASTIC ACTION HAD TO BE TAKEN. LAST YEAR'S INFLATION RATE WAS OVER 28 PERCENT, AND THIS YEAR IT THREATENS TO RISE TO 60 PERCENT. WAGES ARE DUE TO INCREASE BY 13-15 PERCENT ON JUNE 1 BECAUSE OF COST-OF-LIVING BOOSTS. STRIKES HAVE BROUGHT THE COMMERCIAL FLEET TO NEAR PARALYSIS. FISH PRICES HAVE DROPPED ON THE IMPORTANT US MARKET BY SOME 17 PERCENT SINCE JANUARY 1. FOREIGN RESERVES DROPPED BY A DRASTIC 29 PERCENT IN THE FIRST QUARTER AND ARE NOW EQUIVALENT TO ONLY ABOUT 18 MONTHS' IMPORT COSTS.

4. NEW GOVERNMENT COMPOSITION LIKELY: THE OUTGOING COALITION GAINED POPULARITY BY ITS ABILITY TO FORCE THE UK TO CURTAIL BRITISH FISHING WITHIN THE 50-MILE ZONE UNILATERALLY PROCLAIMED BY ICELAND. NEVERTHELESS, PUBLIC DISCONTENT WITH THE PRESENT ECONOMIC SITUATION AND THE FAILURE OF THE COALITION TO TAKE ANY ACTION UNTIL NOW TO COUNTER INFLATION MAKE IT HIGHLY UNLIKELY THAT THE SAME PARTIES WILL RETURN TO OFFICE. PRIME MINISTER JOHANNESSEN AND FOREIGN MINISTER AGUSTSSON ARE CONSIDERED VERY WEAK LEADERS WHO GAVE WAY TO COMMUNIST AND OLL PRESSURES. THE CHANCES FOR THE OPPOSITION INDEPENDENCE AND SOCIAL DEMOCRATIC PARTIES, WHO RULED TOGETHER BEFORE THE COALITION OF PROGRESSIVES, OLL, AND PA TOOK OFFICE IN 1971, TO RETURN TO POWER NOW APPEAR GOOD.

5. BETTER OUTLOOK FOR US INTERESTS: EVEN IF A COALITION THAT INCLUDED THE PROGRESSIVES OR THE OLL ALONG WITH THE INDEPENDENCE OR THE SOCIAL DEMOCRATIC PARTIES WERE FORMED, CONFIDENTIAL

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ITS ATTITUDE TOWARD THE UNITED STATES AND THE FUTURE OF THE KEFLAVIK BASE WOULD BE MUCH MORE POSITIVE THAN THAT OF THE OUTGOING GOVERNMENT. THE PROGRESSIVES AND THE OLL HAD GIVEN WAY TO PA PRESSURE TO ASK THE US TO WITHDRAW ITS TROOPS FROM ICELAND WITHIN 18 MONTHS, BUT IT IS HIGHLY UNLIKELY THAT THE PA WILL BE INCLUDED IN THE NEXT GOVERNMENT. THE INDEPENDENCE AND SOCIAL DEMOCRATIC PARTIES ARE STRONGLY PRO-NATO AND PRO-US AND HAVE OPPOSED ANY

PRECIPITATE ACTION AGAINST THE US/NATO BASE.

6. BECAUSE OF THE PACIFISM AND ANTI-MILITARISM OF THE ICELANDIC POPULATION AND THE FACT THAT THE OUTGOING GOVERNMENT SOUGHT THE REMOVAL OF US TROOPS, THE NEXT GOVERNMENT, REGARDLESS OF ITS COMPOSITION, IS LIKELY, HOWEVER, TO CONTINUE NEGOTIATIONS WITH THE US TO CHANGE THE STATUS OF THE BASE. IT WILL PROBABLY SEEK SOME REDUCTION OF US TROOPS AND GREATER PARTICIPATION BY THE ICELANDIC GOVERNMENT IN THE ADMINISTRATION OF THE BASE. RUSH

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